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## USSR-IRAN: Tense Relations

*Soviet relations with Iran are likely to be further aggravated by the reported arrest yesterday of Iranian KGB agents.* [redacted]

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Iran has announced the arrest of several "KGB spies" including the head of Tudeh, Iran's Communist party. This announcement follows a recent series of attacks in the Iranian media on Soviet duplicity in the Middle East and emphasis on the antagonism between Marxism and Islam.

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Last week Moscow radio accused "very high-level" Iranian officials of conspiring with "imperialism" against Iran's national interests. Earlier, a Soviet periodical had continued to condemn the growing power of Iran's rightwing clergy.

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Comment: Moscow's irritation over Iranian policies has intensified since Iranian forces crossed into Iraq last July. The arrest of the Tudeh leader will antagonize the Soviets and remove one constraint on even more vehement criticism of Iran. Nevertheless, the USSR is unlikely to sever ties with the regime in Tehran.

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DENMARK: Parliamentary Debate on INF

*The parliament probably will pass today a resolution on INF designed to influence the negotiations in Geneva.* [ ]

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The nonbinding resolution contains a call for agreement on SS-20 reductions to make US deployments unnecessary, consideration of solutions other than the zero option, and negotiations on "realistic" nuclear-weapons-free zones in Europe. The parliamentary debate and resolution were called for by the opposition Social Democratic Party and follow the release on 28 January of a 10-point "peace program" by former Foreign Minister Olesen. [ ]

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Comment: The Social Democratic Party apparently has been influenced by the INF debate within Western Europe's social democratic parties, especially Norway's Labor Party. It probably wants to maintain solidarity on the issue. [ ]

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In addition, the Social Democrats almost certainly want to show they are exerting pressure on the US to adopt a more flexible negotiating stance to capitalize on popular opposition to INF deployment in Europe. They also probably are trying to pacify antidefense members of the party's left wing. [ ]

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Party leaders, however, are not seeking to topple the government. They have no desire to assume power again during the current recession. [ ]

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The resolution is intended in part to avert a more radical one from the Socialist People's Party. The governing minority probably will abstain from voting on the resolution, thus allowing the government to claim its continued adherence to NATO's dual-track decision. [ ]

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## NIGERIA: Pessimism in Lagos

*Some key members of President Shagari's government are pessimistic about halting economic decline, are worried that election campaign violence might intensify, and see themselves as increasingly vulnerable to charges of corruption.* [redacted]

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The student riots and international criticism of the chaotic expulsion of aliens reportedly have eroded the government's confidence and credibility. [redacted]

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Declining oil revenues are worsening the economic recession. US officials in Lagos report that oil production in January averaged 840,000 barrels per day--less than 40 percent of capacity--and could drop to 600,000 barrels per day this month. [redacted]

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Foreign exchange reserves remain low despite tighter import restrictions last month and \$3-5 billion in overdue bills. Shortages of imported industrial raw materials and manufactured goods are forcing more businesses to close. [redacted]

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[redacted] The US defense attache reports that senior officers are reluctant to assume responsibility now for the country's serious economic problems. Several of them say they would not take over as long as the situation does not get out of hand and the military receives its budget requirements. [redacted]

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Comment: The government's clumsy handling of recent events has hurt its reputation and has placed Shagari on the defensive politically. The country's overdependence on oil revenues is complicating efforts to find solutions to economic problems. [redacted]

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There is no hard evidence of strong sentiment among soldiers, opposition politicians, students, or organized labor for a return to military rule. The badly divided opposition has not presented a viable alternative to Shagari. If economic conditions deteriorate markedly as the election campaign gains momentum, however, violence could threaten civil order. [redacted]

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## USSR: Hints of Prolonged Stay in Afghanistan

*Komsomolskaya Pravda* acknowledged on Saturday that three Soviet soldiers have been killed in Afghanistan. On Sunday *Red Star* carried an article comparing the Afghan insurgents to Nazis, claiming that they have killed thousands of Afghans in their efforts to overthrow the regime. Last week Soviet lecturers told a domestic audience that the development of support for the Afghan Government is going to be a slow and difficult process but that the USSR will persevere because its national interests are at stake. [REDACTED]

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Comment: Only a dozen articles over the last three years have acknowledged the problems the Soviets face in Afghanistan or have indirectly hinted at their participation in combat. The two new articles came soon after a recent conference of propagandists in Moscow. They suggest that the more open handling of Soviet internal affairs in the media also will apply to treatment of Afghanistan. The comparison of Afghan insurgents to Nazis and the invocation of a threat to Soviet security interests are intended to appeal to Soviet patriotism. [REDACTED]

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## CHINA-US: Comments on Bilateral Relations

The initial Chinese report on the visit of Secretary of State Shultz reflects Beijing's determination to maintain good bilateral relations while pursuing a more independent foreign policy. The coverage of the visit by Xinhua on Sunday said that both sides hold similar views on Afghanistan, Kampuchea, and arms control and agree that a "stable and enduring" Chinese-US relationship is conducive to world peace. The report said that bilateral ties could not be put "on a sound basis," however, until long-standing differences, especially over Taiwan, are resolved. It also warned the US that relations with China could not be used to check the current dialogue with the USSR. [redacted]

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Comment: The report is a low-level account, and it may not represent Beijing's final assessment of the visit. Nevertheless, it clearly indicates that China still views US policy toward Taiwan--particularly on arms sales--as a major obstacle to improving relations. [redacted]

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## JAPAN-US: Trade Issues

[redacted]

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Comment: Nakasone has pushed through decisions on several sensitive issues in an effort to smooth bilateral relations, and he may be able to obtain some movement on agricultural issues. There are important local and national elections this year, however, and at most Tokyo probably would agree to increase quotas. Both the government and industry are willing to accept an extension of the auto quota for fiscal year 1983, but they would balk at a cut in export levels or a specific commitment to extend restraints for a fourth year. [redacted]

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## PALESTINIANS-ISRAEL: West Bank Leaders Visit US

A delegation of anti-PLO West Bank leaders is visiting the US this week to lobby for inclusion in any future international negotiations on the disposition of the occupied territories. The delegation is headed by Mustapha Dudin, a former Jordanian cabinet minister who is president of the West Bank's Village League Federation. The village leagues are rural-based organizations backed by the Israeli Government, which hopes they will provide an alternative to the pro-PLO municipal leaders in the territory. Jordan and the PLO have condemned Dudin and the leagues as collaborators with Israel. [redacted]

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Comment: Although Dudin and the leaders of the other leagues have relied on Israeli support in their competition with the PLO, they also have tried to disassociate themselves from Tel Aviv by backing the current US proposal for West Bank negotiations. They have been unable, however, to attract much popular support outside of the Hebron area. Most West Bankers still view the PLO as their legitimate representative in any negotiations. [redacted]

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## TURKEY-US: Decision on Fighter Aircraft

Defense Minister Bayulken told the US Embassy last week that his government will decide by 15 March whether to purchase F-16 or F-18 fighters. Turkey hopes to buy 160 fighters over 10 years and intends to finance the deal with a combination of its own funds, US assistance, and compensatory arrangements such as coproduction with the manufacturers. [redacted]

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Comment: Ankara apparently is committed to a program to obtain and coproduce fighters, even at the expense of other military and civilian projects. The Turks need to replace their obsolete F-5s, F-100s, and F-104s, which total about three-fourths of their 330 combat-capable jets. Coproduction will cost more than outright purchases but will help the newly developing Turkish defense industry. It will be several years, however, before Turkey is able to coproduce the F-16, F-18, or other advanced aircraft. [redacted]

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## Special Analysis

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### LEBANON: Bleak Outlook

*Lebanon has all the trappings of a government, but most aspects of it exist in name only. Foreign occupation, a weak national army, the existence of illegal militias, and continuing factional violence have hamstrung efforts to provide security, collect taxes, launch reconstruction efforts, or consider political reform. Unless the situation changes soon, President Jumayyil's position may become untenable.* [redacted]

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The authority of the central government does not extend beyond West Beirut. The eastern part of the city remains in the hands of the Phalange-dominated Lebanese Forces militia. Jumayyil's detractors derisively call him the "Duke of Hamra Street," referring to West Beirut's shopping district. [redacted]

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The Lebanese Forces militia continues to be Jumayyil's most serious domestic problem. It has been largely responsible for violence between Christians and Druze in the mountains around Beirut. There is widespread suspicion that the militia's vigilante squads are responsible for a recent rash of bombings aimed at leftists and Palestinians. [redacted]

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[redacted]

Jumayyil's problems with the militia extremists are aggravated by their blatant pro-Israeli sympathies and efforts to push him into a peace treaty with Israel. Militia leaders fear that Israel will cut military aid to the Lebanese Forces if they are unable to induce Jumayyil to cooperate. Most militiamen see close ties to Israel as their only leverage against Syria's preeminence in Lebanon. [redacted]

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Tel Aviv exploits its ties to the Lebanese Forces with a view toward influencing the central government to act in accordance with Israeli interests. Israel considers Jumayyil to be too pro-Arab and seems intent on increasing pressure on him to counter Arab political influence. [redacted]

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#### Hopes for Consensus Fade

Meanwhile, conservative Muslims and leftist groups who initially were willing to cooperate with Jumayyil are increasingly disillusioned with his weak leadership, especially his failure to bring the Lebanese Forces to heel. Moreover, they believe that he has not been effective in resisting Israeli pressure and that Lebanon is giving away too much in the current negotiations. [redacted]

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Despite the appointment of a new Army commander, little progress has been made toward the reconstruction of the regular Lebanese Army. Recruitment is not going well, and efforts to train and reequip the Army are off to a slow start. The Army is still too weak for Jumayyil to risk deployment beyond the capital. [redacted]

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Economic Problems

Lebanon faces serious economic problems, and Jumayyil's prospects for securing a financial base are crumbling, particularly in view of his lack of determination to wrest control of the illegal ports from the Lebanese Forces. The ports are depriving the government of millions in customs revenues--its primary source of income.

[redacted]

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Lebanon's own Central Bank has refused to lend the President foreign exchange for reconstruction until the cash-starved Treasury does a better job of collecting taxes. The Arabs have postponed any aid at least until the outcome of the current negotiations with Israel becomes clear.

[redacted]

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Prospects

Jumayyil will be unable to tackle vital domestic issues until there is progress in current diplomatic efforts to win the withdrawal of Syrian, PLO, and Israeli forces from Lebanon. While he might be willing to go a long way toward satisfying Israeli demands "informally" after an Israeli troop withdrawal, he knows he cannot enter into a formal agreement.

[redacted]

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The President fears that an agreement on normalization before an Israeli withdrawal would make southern Lebanon an Israeli protectorate. If this were to happen, Syria and the Palestinians would refuse to withdraw their forces. The result probably would be the partition of Lebanon.

[redacted]

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Resisting Israeli demands in the negotiations, on the other hand, also discourages Israeli withdrawal, which is the *sine qua non* for Syrian and Palestinian departure. If the current stalemate persists, the Lebanese Forces may become impatient and move to overthrow Jumayyil or to compromise him so badly he would be forced to resign.

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## Special Analysis

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### POLAND: Approach to Western Creditors

*The Poles are putting final touches on their proposals for rescheduling and new credits, and they may submit them soon to Western governments. In the Paris Club--the group of Western government representatives that negotiates rescheduling of debts to official creditors--Poland has the support of some neutral West European governments that might break ranks and discuss rescheduling. If negotiations begin, they will be complicated by the conflict between Warsaw's desire for new loans and the creditors' insistence on receiving payments that are long overdue. Poland is unlikely to be able to pay the minimum amounts required by governments and by banks, and the creditor groups may become rival claimants.* [redacted]

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Government creditors, as a sanction against the martial law regime, refused in 1982 to reschedule obligations for that year. Although some European NATO countries a few months ago appeared to be favoring rescheduling, disappointment over the lack of substantial political change in Poland has reduced this interest recently. [redacted]

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Various departments in some NATO governments still disagree among themselves on rescheduling. Foreign ministries generally oppose meeting with the Poles, while economic ministries want to resume rescheduling to receive payments. [redacted]

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Non-NATO government creditors advocate moving forward quickly, and Switzerland--supported by Austria and Sweden--early this month threatened to break ranks and reschedule Poland's repayments separately. Bern argued that the Paris Club's policy against rescheduling is based on political conditions set by NATO members. [redacted]

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At the meeting of the Club on 11 January, the Swiss proposed that the neutrals constitute an advance negotiating group that the other creditors would later join. The other Club members opposed the Swiss move. [redacted]

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The issue of Polish rescheduling remains alive. The neutrals are likely to continue seeking ways to advance this approach. [redacted]

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#### Warsaw's Goals

Poland probably will seek nearly total debt relief. The agreement for 1981 covered 90 percent of principal and interest. The Poles also may request multiyear rescheduling, possibly for 1982 through 1985. [redacted]

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Polish Deputy Premier Madej says Warsaw will request new credits to invigorate the economy. For rescheduling to bring immediate economic benefit to Warsaw, it would have to be accompanied by credits in excess of payments to Western governments. [redacted]

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The economic counselor at the Polish Embassy in Paris has reported that Warsaw is preparing economic forecasts for 1984 through 1990, including estimates of capacity for debt repayment. He also said the report would be completed by early February and would focus on more flexible and long-term solutions--presumably compared to previous reschedulings. The official indicated that Warsaw had been following international financial developments closely and might have compared notes with other debtor countries. [redacted]

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#### Payment Capacity

The Polish economic plan for this year projects that \$1.9 billion will be available to pay creditors. It assumes a trade surplus of \$700 million, a surplus on services--excluding interest--of \$400 million, and new credits of \$800 million. [redacted]

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If Western governments agree to reschedule, the regime probably will have to choose between paying governments or banks. It will not be able to pay both groups the minimum amounts that each wants. [redacted]

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Warsaw owes government creditors an estimated \$7.7 billion this year, including \$7.2 billion in unrescheduled obligations due in 1982 and 1983 and

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\$450 million in interest on debts rescheduled under the agreement with government creditors for 1981. Governments may insist that the interest payments required under the agreement for 1981 be honored as a down payment for further rescheduling. [redacted]

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If the terms for rescheduling debts for 1982 and 1983 were the same as those for 1981, about \$720 million in unrescheduled debt service would be due this year. Poland would have to pay close to \$1.2 billion to governments in 1983. [redacted]

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Principal and interest payments owed to banks this year total \$4.7 billion. If banks continue to place highest priority on interest payments, the Poles will have to spend all the funds they have available for debt service to cover the banks' minimum demands. [redacted]

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Poland owes the banks \$700 million in interest and other charges under the terms of the rescheduling agreements with them for 1981 and 1982. It has to pay an estimated \$1.1 billion in interest to banks on loans that have not yet been rescheduled. [redacted]

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### Prospects

If negotiations are resumed, either by the full Paris Club or a part of it, progress is likely to be slow. The creditors' desire to receive payment is certain to conflict with Warsaw's desire to obtain nearly total debt relief and large new credits. [redacted]

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Even before martial law, Western governments were reluctant to extend additional credits. They currently will be even less willing, because their export credit agencies are financially strapped by reschedulings with other debtor countries. [redacted]

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